

Dividend All-Cap Value II

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF JUNE 30, 2016



Investment Objectives

- Long-term Total Return > Russell 3000 Value index plus 200 to 400 bps
- Target Yield > Russell 3000 Value index plus 150 bps

Strategy Highlights

River Road's Dividend All-Cap Value II (DAV II) Strategy utilizes a fundamentally driven research process to identify attractive purchase candidates from an all cap universe of high yielding equity securities. This Strategy invests in well-managed, financially strong companies with high and growing dividends, targeting companies that are also trading at a meaningful discount to our assessed valuation. Typical investment criteria include:

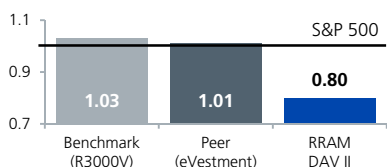
- Minimum market capitalization of \$1 B at the time of purchase
- Indicated dividend yield of at least 2%

The stock selection process is complemented by a risk averse approach that employs balanced diversification and a structured sell discipline.

Low Volatility Returns

- Target Volatility < Russell 3000 Value
- Ranked among the top 8% of peers over the prior five-year period²

Beta vs S&P 500 (Trailing 5 YR)²



Portfolio Managers

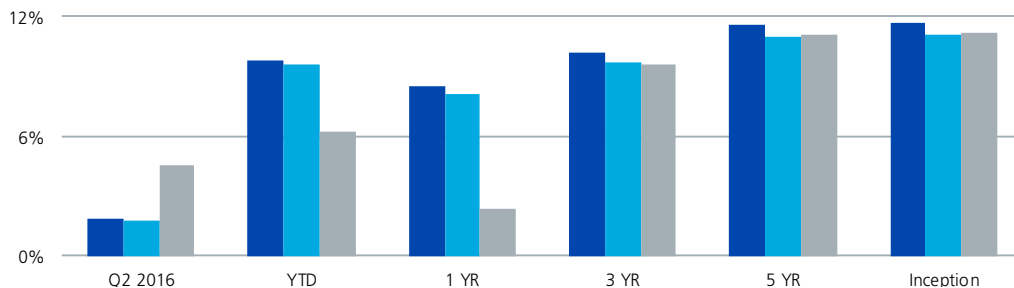
Henry W. Sanders III, CFA
27 years of experience; managed Portfolio since inception
Bellarmine University, BA
Boston College, MBA

Thomas S. Forsha, CFA
18 years of experience; managed Portfolio since inception
The Ohio State University, BS
University of Chicago, MBA

James C. Shircliff, CFA
43 years of experience; managed Portfolio since inception
University of Louisville, BS

Discovering value,
off the beaten path®

Performance Summary



	Q2 2016	YTD	1 YR	3 YR	5 YR	Inception
Out / Underperformance	-2.68%	+3.56%	+6.13%	+0.58%	+0.46%	+0.55%

Portfolio Yield: 3.30%¹

Performance is shown gross and net of fees as of June 30, 2016. Inception date: January 1, 2011. Out/underperformance compares Dividend All-Cap Value II gross performance and Russell 3000 Value. ¹Gross of fees; indicated portfolio yield does not anticipate special dividends. Data presented based on a representative portfolio within the Strategy. ²Volatility, measured as beta and standard deviation, is based on trailing 60 month gross of fee composite performance. Average peer beta presented; peer information provided for the eVestment US All Cap Value Equity Universe. eA collects information directly from investment management firms and other sources believed to be reliable from which it conducts quarterly reviews to classify all products and create peer universes. River Road does not pay eA to be included in the universe, and may not be included in the universe, but does pay for access to this service and data. Source: River Road Asset Management LLC, eVestment Alliance (eA), FactSet Research Systems Inc., Russell Investment Group, and Standard and Poor's. Past performance is no guarantee of future results. Please see reverse side for important disclosure information.

Portfolio Review

The market largely continued to grind higher during the quarter, fueled by rising oil prices, stable interest rates, and a passive Federal Reserve. However, near quarter end **the market was rattled by the results of the European Union (EU) referendum in the U.K. ("Brexit")**. Although the initial shock was substantial, after a brief panic, buyers once again stepped in and equity markets recovered much of the lost ground.

Dividend payers delivered strong performance in Q2, driven largely by stocks in the most expensive sectors of the Dividend All-Cap Value Strategies' universe. These sectors include Consumer Staples, Health Care, and Utilities which have median price/earnings of **22.4x**, **21.4x**, and **20.2x**, respectively. More concerning is that all three of these sectors now have both a median yield and dividend growth below the broader DAV universe. **We believe the perception of safety historically associated with these sectors now comes at a high price and, therefore, an increased risk to investors.**

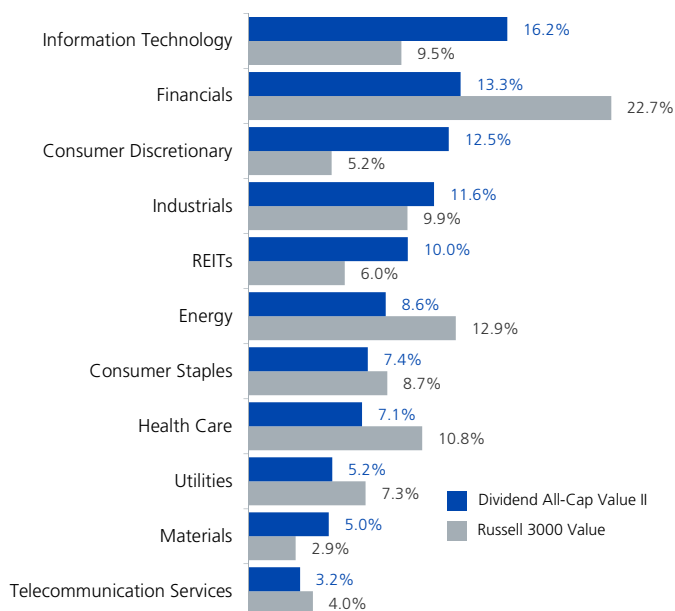
The Portfolio underperformed the benchmark for the quarter despite the positive showing for dividend stocks in the latter part of the quarter. Both sector allocation and stock selection were broadly negative as the market continued to advance in April/May and heightened valuations have led the Portfolio to have very limited exposure to the defensive, dividend-focused sectors that dominated in June. Year to date, the DAV II Composite is ahead of the benchmark by **+356 bps** (+333 bps net).

The sector with the highest contribution to relative return in the Portfolio for Q2 was **Financials**. The top contributing holding in the Portfolio during the quarter was **Iron Mountain Inc.**, a REIT focused on records storage and data management services. The second-largest contributor in Q1, the stock continued to build on this positive momentum. **The stock continued to perform well as the company closed its acquisition of Recall without incident in May.** It appears that with this significant uncertainty past, the market is beginning to appreciate management's steady execution and strong track record of returning capital to shareholders. During the quarter, IRM once again reported positive organic growth in its storage segment and management continued to deliver upon its strategy to drive margin expansion.

The sector with the lowest contribution to relative return for Q2 was **Information Technology**. The bottom contributing holding in the Portfolio during the quarter was **Motorola Solutions Inc.**, a global leader in mission-critical communication infrastructure. **MSI fell sharply after the U.K.'s Competition and Markets Authority launched a merger inquiry of Motorola's acquisition of Airwave Solutions, putting the deal at risk.** MSI's acquisition of Airwave is viewed positively both financially and strategically. In 2015, MSI won a contract to provide user services for the U.K. government's new Emergency Services Network, which will replace the Airwave network. This contract allows MSI to build on Airwave's otherwise worthless assets. On July 1, **this overhang was eliminated after the U.K. regulators announced that they had cleared the acquisition.**

While our outlook for U.S. markets in 2016 has modestly improved, **recent events support our expectation that volatility will remain elevated over the course of the year, and further market gains will be limited.** Periods of heightened volatility, especially to the downside, have historically coincided with strong relative results. Additionally, the perception that long-term interest rates will remain lower for longer should fuel both continued demand for dividend stocks and further outperformance for the DAV II Strategy.

Sector Weightings



Portfolio Contribution

Top Contributors		Yield ³	Average Weight	Contribution to Return
IRM	Iron Mountain Inc.	4.87%	3.25%	+0.58%
DGX	Quest Diagnostics Inc.	1.97%	2.43%	+0.34%
VTR	Ventas Inc.	4.01%	2.03%	+0.33%
NFG	National Fuel Gas Co.	2.85%	1.88%	+0.25%
OXY	Occidental Petroleum Corp.	3.97%	2.24%	+0.24%

Bottom Contributors		Yield ³	Average Weight	Contribution to Return
MSI	Motorola Solutions Inc.	2.49%	2.81%	-0.35%
TGT	Target Corp.	3.44%	1.91%	-0.31%
KSS	Kohl's Corp.	5.27%	0.65%	-0.29%
MSFT	Microsoft Corp.	2.81%	3.91%	-0.27%
FAST	Fastenal Co.	2.70%	2.56%	-0.25%

Portfolio Characteristics

	DAV II	R3000V
Number of Holdings	54	2,053
Dividend Yield	3.30	2.59
Price / Cash Flow	13.3	12.9
ROE (5 YR Avg)	17.2	12.3
EPS Growth (5 YR)	4.7	5.8
Div / Share Growth (TTM)	7.1	6.5
Cash	2.1%	
Annualized Standard Deviation ¹	10.34	12.62
Annualized Alpha ¹	2.92	
Beta ¹	0.76	
Turnover ²	25.85%	

Market Capitalization Breakdown

	DAV II	R3000V
Wtd Median Market Cap	\$27.86 B	\$49.25 B
Wtd Avg Market Cap	\$73.66 B	\$105.73 B
Large Cap > \$15.0 B	65.9%	73.1%
Mid-Cap \$2.0 - \$15.0 B	33.2%	21.7%
Small Cap < \$2.0 B	0.9%	5.1%

Top 10 Holdings

Symbol	Company	% of Portfolio	Yield ³
MSFT	Microsoft Corp.	3.79%	2.81%
IRM	Iron Mountain Inc.	3.52%	4.87%
VZ	Verizon Communications Inc.	3.12%	4.05%
MSI	Motorola Solutions Inc.	2.76%	2.49%
PNC	PNC Financial Services Group Inc.	2.69%	2.51%
INTC	Intel Corp.	2.67%	3.17%
USB	U.S. Bancorp	2.61%	2.53%
OMC	Omnicom Group Inc.	2.59%	2.70%
DGX	Quest Diagnostics Inc.	2.57%	1.97%
WFC	Wells Fargo & Co.	2.49%	3.21%

Data as of June 30, 2016. Totals may not sum due to rounding. ¹Risk characteristics based on trailing 60 month gross of fee composite performance. ²Average annual turnover since inception (January 1, 2011); partial periods excluded from average. ³Gross of fees; indicated yield does not anticipate special dividends. Source: River Road Asset Management LLC, eVestment Alliance (eA), FactSet Research Systems Inc., Russell Investment Group, and Standard and Poor's.

Portfolio contribution calculated for the Q2 2016 period. To receive information regarding the methodology for calculating the top/bottom contributors or a list showing every holding's contribution to the overall DAV II Composite and/or representative portfolio performance contact thomas.mueller@riverroadam.com. The holdings identified do not represent all of the securities purchased, sold, or recommended. Past performance is no guarantee of future results.

Representative Portfolios - Unless otherwise noted as Composite, the data presented is based on representative portfolios within the Dividend All-Cap Value II Strategy. Since no single representative portfolio is available to represent the strategy since inception, data for historical periods combines two or more representative portfolios, using the same criteria, within the Dividend All-Cap Value II Strategy to create a continuous representative portfolio. All representative portfolio data is shown as supplemental information to the Dividend All-Cap Value II Strategy presentation.

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The official benchmark for the composite is the Russell 3000 Value. All other indices are shown as additional information only. **Russell 3000 Value** - Unmanaged index constructed to provide a comprehensive and unbiased barometer of the broad value market.

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eVestment US All Cap Value Equity - US Equity products that invest primarily in small, mid, and large capitalization stocks with fundamental characteristics showing them to be under-priced or in slower growing economic sectors. The expected benchmarks for this universe would include the Russell 3000 Value, S&P 500, or Russell 1000 Value. Managers in this category will typically indicate a "Primary Capitalization Emphasis" equal to All Cap and a "Primary Style Emphasis" equal to Value.

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